

SPECIAL REPORTING INSTRUCTIONS FOR THIS QUARTER

1. Data reported in the DCM is on a fiscal year to date basis; that is, from year end through the end of the current quarter.
2. For users who submitted data into the DCM during 4th quarter FY 2006, your beginning balances will be pre-populated in the DCM. All first time users will show a beginning balance of zero. If you have any discrepancies with your beginning balance, please contact FMO immediately.
3. Values entered should not be rounded. All amounts should be in dollars and cents.
4. Individuals submitting data via the DCM shall maintain supporting detailed files or records for audit trail purposes.

GUIDELINES FOR REPORTING LEASES

A lease is an agreement that conveys the right to use property, usually for a specified period. Leases typically involve two parties: the owner of the property (lessor) and the party contracting to use the property (lessee), and are classified either as a capital or an operating lease.

Capital Lease Definition: A capital lease transfers the benefits and risks inherent in the ownership of the property to the lessee, who accounts for the lease as an acquisition of an asset and the incurrence of a liability.

Capital Lease Classification Criteria: If one or more of the following four criteria is present at the inception of a lease, it is classified as a capital lease by the lessee:

1. Ownership of the property is transferred to the lessee by the end of the lease term.
2. The lease contains a bargain purchase option.
3. The lease term, at inception, is substantially (75% or more) equal to the estimated economic life of the leased property, including earlier years of use. (Exception: This criterion cannot be used for a lease that begins within the

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last 25% of the original estimated economic life of the leased property.

4. The present value of the minimum lease payments at the beginning of the lease term, excluding executory costs and profits thereon to be paid by the lessor, is 90% or more of the fair value of the property at the inception of the lease, less any investment tax credit retained and expected to be realized by the lessor. (Exception: This criterion cannot be used for a lease that begins within the last 25% of the original estimated economic life of the leased property.)

Operating Lease Definition: Operating leases are characterized as leases that do not transfer substantially all of the benefits or risks of ownership.

Operating Lease Classification Criteria: All of the following criteria must be present at the inception of a lease, to be classified as an operating lease by the lessee:

1. Ownership of asset remains with the lessor during the term of the lease and is not transferred to the Government at or shortly after the end of the lease.
2. The lease does not contain a bargain purchase option.
3. The lease term, at inception, does not exceed 75% of the estimated economic life of the asset.
4. The present value of the minimum lease payments over the life of the lease does not exceed 90% of the fair market value of the asset at the inception of the lease.
5. The asset is a general-purpose asset rather than being for a special purpose of the Government and is not built to the unique specification of the Government lessee.
6. There is a private sector market for the asset.

For the Future Payments Due, enter future capital and operating lease payments, by major category, for all non-cancelable leases with terms longer than one year. Normal minimum lease payments for the lessee include:

1. The minimum rent called for during the lease term.

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2. Any payment or guarantee that the lessee must make or is required to make concerning the leased property at the end of the lease term (residual value), including:

- a) Any amount stated to purchase the leased property,
- b) Any amount stated to make up any deficiency from a specified minimum,
- c) Any amount payable for failure to renew or extend the lease at the expiration of the lease term.

When a lease contains a bargain purchase option, the minimum lease payment includes only:

- (a) The minimum rental payments over the lease term and
- (b) The payment required to exercise the bargain purchase option.

The following are excluded in determining minimum lease payments:

- 1. A guarantee by the lessee to pay the lessor's debt on the leased property
- 2. The lessee's obligation (separate from the rental payments) to pay executory costs (insurance, taxes, etc.) in connection with the leased property
- 3. Contingent rentals.

For capital leases only, separately disclose the portions of the lease liability covered by budgetary resources and not covered by budgetary resources.

- 1. Values entered should not be rounded. All amounts should be in dollars and cents.
- 2. Individuals submitting data via the DCI should maintain supporting detailed files or records for audit trail purposes.
- 3. Enter amounts in the Accumulated Amortization column as positive numbers. These amounts will be subtracted from the Gross Value.

Additional Guidance

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Refer to the following for additional guidance: SFFAS No. 1, "Accounting for Selected Assets and Liabilities;" SFFAS No. 3, "Accounting for Inventory and Related Property;" and SFFAS No. 6, "Accounting for Property, Plant, and Equipment". Also refer to the DoD Financial Management Regulation, Volume 6B, Chapter 10. The additional references mentioned above can be found on the FMO Headquarters website at <http://www.fmo.navy.mil/>

INSTRUCTIONS FOR COMPLETING THE NARRATIVE TAB

In the Narrative tab, provide the following:

- (1) Description of the assets being leased. Also include information regarding terms of renewal options, escalation clauses, restrictions imposed by lease agreements, contingent rentals, and the amortization period (capital leases only).
- (2) Explanation for the variation if there is a +/- 10% in the % change column.
- (3) Detail explanation of any prior period adjustments reported in the schedules.